Federal Accounting Standards Advisory Board

June 9, 2005

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Research into the Application of the Liability Definition[1] – Tab D

At the May 4, 2005 meeting, staff presented a discussion of alternative obligating events for two programs administered by the Farm Service Agency – the Milk Income Loss Contract (MILC) Program and the Feed Grains Direct and Counter-Cyclical Payment (DCP) Program – and a discussion of several alternative obligating events for each program. Staff recommended that the submission of the contract and documentation of supporting requirements be selected as the obligating event for both programs. Several members agreed with staff's recommendation for the obligating event but indicated that recognition would probably not occur until the price falls below a certain level ($16.94 for MILC or the target price for DCP). This is in line with the Board's preference stated at the March meeting to cast a wide net for liability designation but weed out those liabilities that are less probable or too difficult to reliably estimate at the measurement and recognition stage.

This tab presents an analysis of the Corporation for National and Community Service (the Corporation or CNCS) liability for member service awards as an example of a government program that currently recognizes a liability before the due and payable point even though it is a nonexchange transaction and not all conditions have been met for the member to have a legal claim to the award. A fact sheet on the Corporation's Trust Service Award Liability is located at Appendix 1.

The staff objective for the June meeting is to obtain comments, suggestions, and continued direction for the project. Staff would specifically like to obtain the Board's response to the four questions below:

1. **Do you agree the Board should abandon the distinction between exchange and nonexchange as a defining characteristic in determining when to recognize a liability?**

**[contd.]**

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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2. **Under current FASAB standards (SFFAS 5), liability recognition would occur only when a service award is due and payable. Do you believe the <u>liability definition (as drafted) is met</u> before the "due and payable" point?**

3. **Do you agree with the Corporation's <u>recognition</u> of its service award liability earlier than due and payable?**

4. **Do you agree with staff's recommendation to begin measuring the liability at the point when the member applies for the program and not wait until he has completed 15 percent of service?**

Please contact me at 202-512-7377 or by e-mail at ranaganj@fasab.gov with questions or comments.

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## Staff Objective for this Paper

To discuss the liability currently being recognized under existing FASB standards for a selected federal program in the context of FASAB objectives for federal financial reporting and current Board deliberations on the Elements project. To obtain the Board's opinion on whether the liability recognition earlier than due and payable for this particular nonexchange transaction makes sense, and to confirm the Board's earlier decision that the distinction between exchange and nonexchange transactions should be abandoned as a defining characteristic in determining when to recognize a liability.

## Selected Program

### *Corporation for National and Community Service, Trust Service Award Liability*

*Note: The information and details contained in the program fact sheet immediately following this paper are critical to the understanding of this program and staff's analysis.*

The Corporation for National and Community Service (the Corporation or CNCS) National Service Trust (the Trust) was established by the National and Community Service Trust Act of 1993 to provide funds for education awards for eligible participants who complete AmeriCorps service. Funding for the Trust comes from appropriations, interest earned, and proceeds from the sale or redemption of Trust investments. The Corporation receives an annual appropriation of one-year, two-year, and no-year monies through the normal appropriation process.[1] For fiscal year 2004, the Corporation was directed to transfer no less than $130,000,000 from its two-year monies to the Trust to remain available until expended. The Corporation then invests these funds in Treasury securities that can be converted to cash as needed to:

- Repay qualified student loans;
- Pay educational expenses at a qualified institution of higher education;
- Pay expenses incurred participating in an approved school-to-work program; and,
- Repay eligible interest expenses.

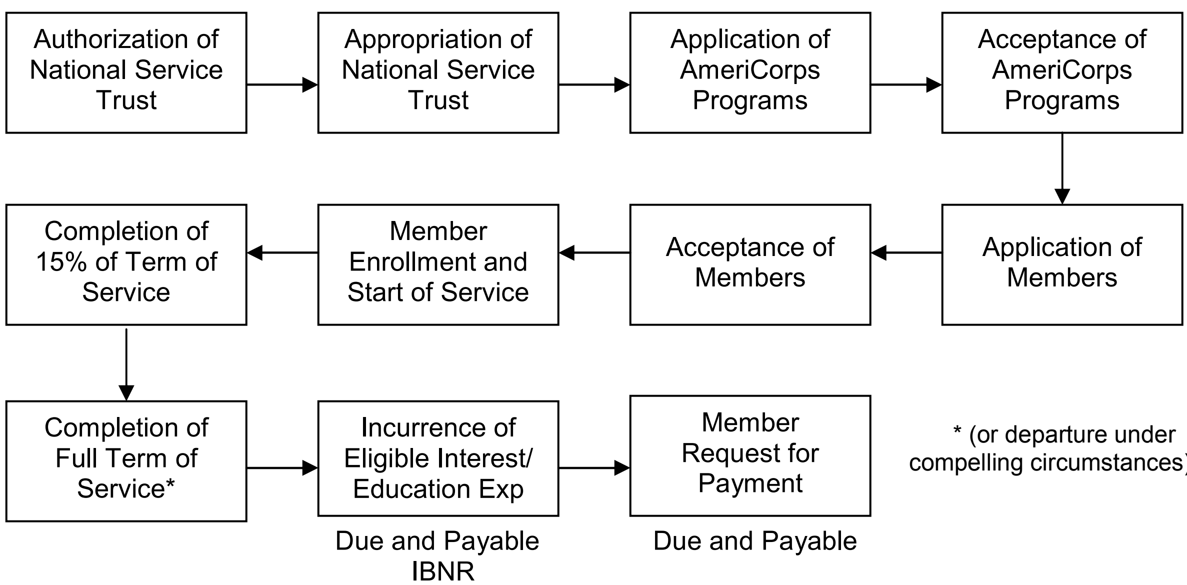
In its annual and quarterly financial statements, the Corporation includes an estimate of the anticipated service awards to be paid, which includes education awards and interest forbearance awards. These awards are paid to educational and financial institutions on behalf of participants who complete terms of service in AmeriCorps programs. As participants enroll in the program and complete 15 percent of their service requirement, the Corporation records a liability and expense. As the awards are used, the liability is reduced. The Corporation's Trust Service Award Liability (SAL) is by far the largest liability on the Statement of Financial Position. It is derived by taking the total number of AmeriCorps members enrolled in the program that have completed at least 15 percent of their service as of the quarter or year-end, and multiplying that number by several estimation factors, including percentage of members estimated to complete their term of service, the average amount of the awards that will be earned, and the likelihood that the awards will be used. This is an expected value approach that excludes participants who have not yet attained minimum (threshold) eligibility.

[1] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget, at* http://www.whitehouse.gov/omb/circulars/a11/04toc.html

To be eligible to serve as an AmeriCorps member, a participant must (1) be a U.S. citizen, national, or lawful permanent resident alien; (2) be age 17 and older; and, (3) submit an application to either the Corporation or an eligible AmeriCorps program. Once the application is accepted and the member is enrolled in an AmeriCorps program, the member serves full or part time over a nine to 12-month period. Once the member completes his service, he earns a service award (education and interest forbearance) based on the number of hours served. If the member completes at least 15 percent of his service and leaves for compelling circumstances, he can earn a prorated award. The member has seven years from his last day of service in which to use the service award. An extension may be granted in certain circumstances. At the time the member uses the award, he must have received a high school diploma, or the equivalent of such diploma.

The Corporation recognizes[2] a service award liability at the time a member has completed 15 percent of his term of service. The Corporation recognizes a liability for these service awards based on actual awards earned for participants who have completed service and estimated amounts for participants still enrolled in the program. In addition, the liability for each member varies depending on their enrollment status: full-time, part-time, or reduced part-time. The Corporation records the entire amount of the award, less an estimated amount (1) for participants who will not complete service and not earn an award and (2) for participants who earn an award but will not use it.

**Life Cycle Events of the Service Award Program**




For more detailed information, see the CNCS fact sheet at Appendix 1.

[2] Records in the financial statements with a dollar value.

## Significance of the Selected Program to FASAB Deliberations

The Corporation currently recognizes a liability for the education and forbearance awards (service awards) earned by AmeriCorps members well in advance of the point that they become due and payable. In addition, while there is an exchange aspect to this program (the members are providing a service in exchange for the government's promise of an award), in most cases, the service members are not providing a service directly to the federal government. Generally, the service is performed by AmeriCorps members on behalf of a non-government entity (e.g., non-profit organization) and the direct beneficiaries of the services are typically American citizens. Furthermore, there are numerous events that must occur before the member has legal claim to the service award: (1) the member must enroll in an AmeriCorps program; (2) the member must complete his or her entire term of service or, in the case of termination from the program due to compelling circumstances, the member must have completed at least 15 percent of his or her term of service in order to receive a prorated award; (3) the member must complete an exit form documenting completion of service; and (4) the member must enroll in a qualified educational institution or school to work program and request payment or, in the case of student loans, the member must request payment to the appropriate holder of the loan.

A liability is calculated for all members that have completed at least 15 percent of their service as of the reporting date, even though these members do not have a legal claim to any portion of the award until they complete their entire term of service or leave for compelling circumstances and, even then, they still must enroll in a qualified educational institution or have outstanding student loans to qualify for payment. The liability is estimated using the Corporation's historical experience with earning and usage rates since the first program year in 1994. Staff feels this liability recognition may be relevant as a case study for the Board as it looks at the revised definition of a liability and the impact for government programs.

## FASAB Objectives for Federal Financial Reporting

Determining the appropriate accounting treatment for the selected program may require the Board to consider what the overall objective is for providing this information, and what the objective is for the balance sheet and statement of net cost. The following objectives from SFFAC 1 seem especially relevant:[3]

> Objective #2 – Operating Performance – Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:
>
> 2A. the costs of providing specific programs and activities and the composition of, and changes in, these costs;
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> 2B. the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
>
> 2C. the efficiency and effectiveness of the government's management of its assets and liabilities.

[3] FASAB: Original Pronouncements, Version 4 (06/2004), p. 6

> Objective #3 – Stewardship – Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether:
>
> 3A. the government's financial position improved or deteriorated over the period;
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> 3B. future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due; and,
>
> 3C. government operations have contributed to the nation's current and future well-being.

## FASB Standards vs. FASAB Standards

The American Institute of Certified Public Accountants has designated FASAB as the source of generally accepted accounting principles (GAAP) for federal entities. Therefore, in general, any federal entity financial statements prepared in accordance with principles that conflict with FASAB standards should not be regarded as being in accordance with GAAP. However, following guidance set forth in OMB Circular A-134, *Financial Accounting Principles and Standards*,[4] many government corporations continue to use standards promulgated by the Financial Accounting Standards Board (FASB) rather than FASAB. FASAB has allowed this practice to continue by stating that financial statements in accordance with accounting standards published by the FASB also may be regarded as in accordance with GAAP for those federal entities that have in the past issued such financial statements (e.g., government corporations).[5] However, as part of the 2005/2006 agenda setting process, the appropriate source for GAAP is one of the projects being solicited for comments and may be taken up as a formal project by the Board.

[4] Circular A-134 states, "Statements of Federal Financial Accounting Standards (SFFASs) shall be considered generally accepted accounting principles (GAAP) for Federal agencies. Agencies shall apply the SFFASs in preparing financial statements in accordance with the requirements of the Chief Financial Officers Act of 1990. Auditors shall consider SFFASs as authoritative references when auditing financial statements." However, Circular A-134 stated that it does not apply to federally-owned or controlled corporations that are preparing financial statements in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board.

[5] FASAB News, Issue 60, Jan.-Mar., 2000

## FASB

The Corporation has historically prepared its statements in accordance with FASB standards and continues to do so, but is making strides in also presenting information that reflects FASAB standards particular to federal entities. However, the Corporation continues to follow FASB FAS 5, *Accounting for Contingencies*, which states:

> ***Accrual of Loss Contingencies***
>
> FAS 5, Par. 8
>
> 8. An estimated loss from a loss contingency (as defined in paragraph 1[6]) shall be accrued by a charge to income if both of the following conditions are met:
>
> a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.[7] It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
> b. The amount of loss can be reasonably estimated.

Since FAS 5 does not distinguish between exchange and nonexchange transactions, the Corporation has interpreted this standard as requiring that a liability for service awards for the AmeriCorps members be recognized as soon as the members are enrolled in the program and have completed 15 percent of their service requirement.

Note: There was some discussion at the last Board meeting regarding FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. FIN 45 **does not supersede FAS 5**, *Accounting for Contingencies*, but rather clarifies that guarantees include both a noncontingent aspect (the promise to stand ready to perform when a specified event occurs) as well as a contingent aspect (the actual performance when the specified event occurs). FAS 5 continues to hold true for contingent events (e.g., a customer sues a fast food establishment, claiming that the establishment's coffee, which he spilled on himself, was served too hot. The fast food establishment denies any wrongdoing but, may nonetheless, have a contingent liability to settle the lawsuit) as well as the contingent aspect of the guarantee (e.g., the milk price falling below $16.94 per hundredweight (cwt)). FIN 45 clarifies the accounting for the noncontingent aspect of the guarantee (e.g., the government's promise to stand ready to perform should the milk price fall below $16.94 per cwt), which would not be covered by FAS 5.

[6] FAS 5, par. 1 states "For the purpose of this Statement, a contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (hereinafter a "gain contingency" or loss[1] (hereinafter a "loss contingency") to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability." [1]FAS 5, Footnote 1 states "The term *loss* is used for convenience to include many charges against income that are commonly referred to as *expenses* and others that are commonly referred to as *losses*."

[7] FAS5, Footnote 4 – *Date of the financial statements* means the end of the most recent accounting period for which financial statements are being presented.

## FASAB

FASAB is currently in the process of drafting a new liability definition. However, staff feels that it would be useful to illustrate how the Corporation would report its service award liability if it were required to follow the current FASAB SFFAS 5, *Accounting for Liabilities of the Federal Government*, which states:

> ***Criteria for Recognition of a Contingent Liability***
>
> SFFAS 5, Par. 38
> 38. A contingent liability should be recognized when all of these three conditions are met:[8]
> - A past event or exchange transaction has occurred (e.g., a federal entity has breached a contract with a nonfederal entity).[9]
> - A future outflow or other sacrifice of resources is probable (e.g., the nonfederal entity has filed a legal claim against a federal entity for breach of contract and the federal entity's management believes the claim is ... likely ... [Note that SFFAS 12 changed the definition of "probable" in cases involving litigation from "more likely than not" to "likely." See SFFAS 12 for more explanation. Also note that this parenthetical example would no longer be typical of the "more likely than not" application.] to be settled in favor of the claimant).
> - The future outflow or sacrifice of resources is measurable (e.g., the federal entity's management determines an estimated settlement amount).

As illustrated in Figure 1, noted in footnote 9, and reiterated in Appendix A: Basis for Conclusions, par. 146, FASAB decided that federal entities should not recognize a liability for nonexchange transactions before they are due and payable.

> FASAB 5, Appendix A: Basis for Conclusions, par. 146:
>
> …The Board decided that liabilities arising from nonexchange transactions would be recognized for any unpaid amounts due as of the reporting date.

Therefore, under FASAB standards, since the AmeriCorps members are not providing anything of value directly to the Corporation, the payment of service awards would be considered to be a nonexchange transaction and would not be recognized until the point that they become due and payable, which could be up to seven years or more after the member completes service. This would take the Corporation's liability from $237 million to approximately $2.5 million at year-end.

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[8] FASAB 5, Footnote 26 – The unit of analysis for estimating liabilities can vary according to the reporting entity and the nature of the transaction or event. The liability recognized may be the estimation of an individual transaction or event; or a group of transactions and events. For example, SFFAS Number 2, "applies to direct loans and loan guarantees on a group basis, such as a cohort or a risk category of loans and loan guarantees. Present value accounting does not apply to direct loans or loan guarantees on an individual basis, except for a direct loan or loan guarantee that constitutes a cohort or a risk category." Statement of Federal Financial Accounting Standards Number 2, Accounting for Direct Loans and Loan Guarantees. par. 21. See the standard on Insurance and Guarantees in this document for a description of incurred but not reported (IBNR) claims.

[9] FASAB 5, Footnote 27 – In the case of government-acknowledged events giving rise to nonexchange or exchange transactions, there must be a formal acceptance of financial responsibility by the federal government, as when the Congress has appropriated or authorized (i.e., through authorization legislation) resources. Furthermore, exchange transactions that arise from government-acknowledged events would be recognized as a liability when goods or services are provided. For nonexchange transactions, a liability would then be recognized at the point the unpaid amount is due. Therefore, government-acknowledged events do not meet the criteria necessary to be recognized as a contingent liability.

The SFFAS 5, Basis for Conclusion, pars. 126 – 133, offered the following explanation of why the prior FASAB Board members felt the distinction between exchange and nonexchange transactions was important in the federal government context:

> 126. As noted in SFFAC No. 1, Objectives of Federal Financial Reporting: "The accounting process begins with recording information about transactions between the government (or one of its component entities) and other entities, that is, inflows and outflows of resources or promises to provide them."[10] In some transactions, consideration of value is exchanged: there is a reciprocal or two-way flow. Other transactions, such as grants and other transfer payments are nonexchange transactions (i.e., there is a nonreciprocal transaction--normally a one-way flow).
>
> 127. The federal government is the vehicle through which citizens of the nation exercise their sovereign power. In this role, the federal government is responsible for taking collective action at the national level "to promote the general welfare. "Thus the government undertakes many programs that do not involve reciprocal transfers between the government as an entity and its counterparties. Examples include disaster relief, grants to state and local governments, subsidies, and other transfer programs for individuals. The federal government has a propensity to assume such burdens because it is the agent by which the society, through its elected officials, accomplishes transfers between groups of citizens to enhance their well-being.
>
> 128. A taxpayer or a donor may, in fact, receive a benefit of some sort, such as the opportunity to live in a safe, secure environment; to improve one's standard of living; and to receive specific benefits, such as visits to national parks and travel over highways. But it is not ordinarily said that the benefit to the individual taxpayer or donor is of value comparable to that of the consideration given. Therefore, these are classified as nonexchange transactions. For this Statement, the significance of the distinction between exchange and nonexchange transactions arises from the nature of the obligation that is created when one party to a transaction provides a product or service to the other party in return for a promise that something of value will be exchanged for it.
>
> 129. Obligations become legally enforceable claims against the federal government in different ways and at different points within transaction cycles that relate to various programs. An important factor in distinguishing between various programs is whether an exchange is involved. For example, the federal government may not contract for and receive goods or services and then arbitrarily decide not to honor the contract. Similarly, under existing law, the federal government may be financially responsible for certain damage and injury it causes.
>
> 130. In other cases, the obligation may be more a matter of what is perceived as equitable and good public policy than a legally enforceable claim. Although there may be a high probability that a grant, a subsidy, or an income transfer will be made or will continue in future years, the recipients of such grants, subsidies, or transfers do not have a right to receive such payments in the future from the federal government as do those who receive payments in exchange for service they have performed.
>
> 131. However, it is possible to make meaningful estimates of the future amounts required to continue present policies regarding such programs. These estimates are relevant to certain decisions and should be disclosed or otherwise reported, as discussed further in Supplementary Stewardship Reporting. In the context of the Board's definition, however, estimates of future nonexchange payments should not be recognized as a current period liability. On the other hand, any

[10] SFFAS 5, Footnote 63 – P. 53, paragraph (16c).

payments due as a result of past events but unpaid at the end of the period constitute a liability.

132. In the case of federal liabilities, some future outflows of resources are so likely that they should be recognized as accounting liabilities in general purpose federal financial reports before all the other events necessary to create a legally enforceable claim against the government exists.[11] Two important examples of such substantive accounting liabilities are the pensions and retirement health care promised federal workers in return for their service.

133. An exchange can in substance be said to have occurred in such cases, even if the government has not yet made an outlay of cash or other financial resources. Service has been exchanged for a promise of future payment or health care. Such charges are properly assignable to the current period in financial reports. This exchange implies, for example, that general purpose federal financial reports should recognize the financial effects of the promise to provide health care to retired federal workers as that obligation accrues during their years of service, regardless of whether the budget includes a provision for this item. This is true even though unfunded liabilities of the federal government reported on the financial statements cannot be liquidated without the enactment of an appropriation. Also, as a sovereign entity, the payment of all liabilities other than for contracts can be abrogated by the federal government.

**Poll**

**SFFAS 5 states that a liability for nonexchange transactions should not be recognized until the point that the unpaid amount is due. Several Board members have said recently that the distinction between exchange and nonexchange transactions is not useful in light of current deliberations on what constitutes a federal liability. In addition, in early deliberations on the liability definition, members agreed that there would be one set of inherent characteristics of a liability with no distinction between exchange and nonexchange. In the above example of the Corporation's Service Award Liability, staff believes restricting the recognition of these nonexchange transactions to the due and payable amount would result in the degradation of reporting. Do you agree the Board should abandon the distinction between exchange and nonexchange as a defining characteristic in determining when to recognize a liability?**

**________Yes (Abandon Distinction)**

**________ No (Maintain Distinction)**

[11] SFFAS 5, Footnote 64 – Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress.

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## Characteristics of a Liability

At the December 2004 meeting, the Board continued deliberations begun at previous meetings under the Elements project as to whether the essential characteristics of liabilities identified by FASB in its Concepts Statements 6 for private-sector entities are also essential characteristics of federal liabilities, and/or whether federal liabilities have other essential characteristics. The characteristics of FASB are (par. 36):

(a) It embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand;
(b) The duty or responsibility obligates a particular entity leaving it little or no discretion to avoid the future sacrifice; and
(c) The transaction or other event obligating the entity has already happened.

At the June 2005 meeting, staff on the Elements project will present a draft liability definition that is based on the same "essential characteristics of a liability" as FASB's above but with specific application to the federal environment. Paragraph L7 of staff's paper for the June meeting states "A liability of a federal entity comprises the following characteristics:

(a) the federal entity has a present obligation to another entity;
(b) the obligation is to provide assets or services to the other entity; and,
(c) the obligated entity has very little possibility of avoiding settlement at a determinable date, when a specified event occurs, or on demand."

The Board will discuss these proposed characteristics of a liability at the June meeting.

## Discussion of the Characteristics of a Present Obligation

The first characteristic of a liability in the previous section relates to a present duty or responsibility (present obligation). As discussed in prior Board meetings, for exchange transactions, the present obligation is generally created at the point that the exchange occurs. However, for nonexchange and exchange-like transactions, where there is no defined point of exchange, a thorough analysis must be undertaken to determine when the obligating event occurs. Staff on the Elements project will be taking a conceptual look at this as the liability definition is developed.

Paragraphs L8 through L10 of the Elements staff's paper to be presented at the June 2005 Board meeting discusses the present obligation essential characteristic of a liability more fully with respect to the involvement of a second party to the government:

> L8. As the term is used in this Statement, an obligation is a duty or responsibility to act in a certain way toward another entity. To have a *present* obligation means that the obligation arose as a result of a past transaction or other event and has not yet been settled. To qualify as a liability, a present obligation must entail the provision of assets (cash, cash equivalents, or goods) or services to another entity in the future. For example, an entity that has received but not yet paid for goods or services that it has agreed to purchase from another entity has a present obligation to settle the agreed amount. Further, when an entity agrees to provide funds to another entity if it meets certain conditions and the other entity has met those conditions, the first entity has a present obligation to provide the funds.

> L9. For a present obligation to qualify as a liability, two separate entities must be involved, namely the federal entity that has the obligation and another federal or nonfederal entity (or entities) that is external to the obligated entity. Separate entities must be involved because the same entity cannot be both the recipient of settlement of a liability and the entity with the duty to settle. For example, a federal entity that operates machinery may have a duty or responsibility to maintain it. However, the entity does not have a liability for maintenance; the entity cannot have a liability to itself. In contrast, if the entity contracts for maintenance from another entity, it may have a liability to that other entity for the price of the maintenance services it has received.
>
> L10. It is important to distinguish between a present obligation, which may be a liability, and an expression of future intent, which is not. For example, an entity may announce its intent to purchase assets in the future, or to provide financial assistance in the future to individuals that meet certain conditions. The announcement does not, of itself, create a present obligation. For a present obligation to be incurred requires the occurrence of an event that involves another entity, namely, in the examples, delivery of the purchased assets by the vendor, or evidence that proposed recipients have satisfied the required conditions for financial assistance.

Some could argue that an obligating event occurs once there is an agreement[12] of some type with some form of offer and acceptance. Once there is an agreement in effect, the two parties to the agreement attain a certain "mutual understanding" whereby there is a second party that is taking part in the agreement with the government and both parties come to understand the terms of the agreement. It is this mutual understanding that ultimately results in the federal entity being required to settle.

FAS 88: Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, par. 44, states:

> "Statement 74 addressed accounting for special termination benefits whether or not provided through a defined benefit pension plan, that are offered for a short period of time in exchange for employees' voluntary termination of service. The primary conclusion of the Board in Statement 74 was that the cost of special termination benefits should be recognized as a liability and a loss when the employees accept the offer and the amount can be reasonably estimated. That conclusion is incorporated in this Statement. The cost of other termination benefits provided by the existing terms of a plan that are payable only in the event of employees' involuntary termination of service due to a plant closing or a similar event should be recognized when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. The majority of respondents addressing this issue agreed with those conclusions."

As noted in the paragraph above, in the case of voluntary termination benefits, FASB has determined that a liability should be recognized when the employees accept the offer and the amount can be reasonably estimated. It is at the point that the employee accepts the offer that a mutual understanding has been formed.

FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, states that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of that liability is the fair value of the guarantee at its inception. FIN 45 clarifies that it is the noncontingent obligation of the guarantee (the point

[12] Used in the dictionary sense: "agreement - An arrangement as to a course of action." From Merriam-Webster Online.

at which there is a mutual understanding) that creates the obligation, not the contingent event that leads to payment.

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* states that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 clarifies that it is the unconditional obligation to perform the asset retirement activity that creates the obligation, even though uncertainty exists about the timing and/or method of settlement. At the time the asset is purchased with an existing retirement obligation (e.g., an entity utilizes wood poles that are treated with certain chemicals and the entity is required by existing legislation to specially dispose of the wood poles upon removal), FASB has determined that the entity is accepting the asset retirement obligation (e.g., to specially dispose of the wood poles in the future) and should recognize a liability if the entity can reasonably estimate its fair value. Thus, at the time of purchase, there exists a mutual understanding based on existing legislation, that if the entity purchases the asset, it is accepting the terms of the related legislation that results in an asset retirement obligation.

## Staff Recommendation: CNCS Trust SAL

The Corporation recognizes revenue in the Trust Fund as it (1) receives appropriations that are transferred to the Trust and (2) earns interest on existing investments. These funds are invested in Treasury notes, bills, and bonds, and recognized as an asset. The investments are converted to cash as they mature to pay for service award obligations as they become due and payable. Following FASB standards, the Corporation recognizes[13] a service award liability once the member has completed 15 percent of his term of service. This 15 percent threshold is the earliest point that a member can receive a prorated service award if he leaves under compelling circumstances.

In the interest of matching expenses to the events that trigger them, staff believes that the FASB treatment for recognizing a liability for the Corporation's service awards without regard to whether the transaction is exchange or nonexchange is appropriate. The Corporation's future payments are recognized as expenses in the current period based on the obligating event of enrollment into the program combined with meeting the minimum eligibility threshold of 15 percent of the service requirement.

However, applying the notion of mutual understanding and agreement (acceptance of an offer) discussed under the section on characteristics of a present obligation, staff believes that there exists a mutual understanding between the Corporation and the member at the point when the member applies for the program, and it is from that point that liability recognition and measurement should occur. It can be estimated how many members will be accepted and how many members will leave before completing 15 percent of their service. In fact, the Corporation's Service Award Liability Estimate software model already estimates that approximately 81 percent of members that enroll in the program will earn an award and approximately 79 percent of members that earn an award will eventually use it. The liability for

[13] Records in the financial statements with a dollar value.

the Corporation's Trust service awards should be recognized and measured at the point that the member applies for the program because it is at that point that the government and the member have reached a mutual understanding and, based on the current terms of that agreement, the government will be required to settle the obligation at a specified or determinable date, when a specified event occurs, or on demand.

**Poll**

1. **Under current FASAB standards (SFFAS 5), liability recognition would occur only when a service award is due and payable. Do you believe the liability definition (as drafted) is met before the "due and payable" point?**

   **______ Yes**

   **______ No**

2. **Do you agree with the Corporation's recognition of its service award liability earlier than due and payable?**

   **______ Yes**

   **______ No**

3. **Do you agree with staff's recommendation to begin measuring the liability at the point when the member applies for the program and not wait until he has completed 15 percent of service?**

   **______ Yes**

   **______ No**

# Corporation for National and Community Service
# Trust Service Award Liability

*The Corporation for National and Community Service (the Corporation or CNCS) is a government corporation that provides opportunities for Americans of all ages and backgrounds to serve their communities and country.*

## Background

The Corporation was created by the National and Community Service Trust Act of 1993 (Public Law 103-82, 42 USC 12651). The Corporation provides grants and other incentives to States, local municipalities, and not-for-profit organizations to help communities meet critical challenges in the areas of education, public safety, human needs, and the environment through volunteer service. The Corporation oversees three national service initiatives:

- AmeriCorps is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes State, National, Tribes & Territories (State/National); National Civilian Community Corps (NCCC); and Volunteers In Service To America (VISTA) programs;

- The National Senior Service Corps (Senior Corps) is a network of people age 55 and older who participate in the Foster Grandparent Program, the Senior Companion Program, and the Retired and Senior Volunteer Program. These programs tap the experience, skills, talents, and creativity of America's seniors; and,

- Learn and Serve America supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.[14]

Members and volunteers serve with national and community nonprofit organizations, faith-based groups, schools, and local agencies to help meet community needs in education, the environment, public safety, homeland security, and other critical areas. The Corporation is part of USA Freedom Corps, a current White House initiative to foster a culture of citizenship, service, and responsibility, and help all Americans answer the President's Call to Service.[15]

The Corporation recently announced that AmeriCorps members have earned more than $1 billion in AmeriCorps Education Awards since the program was launched in 1994.[16]

[14] CNCS Fiscal Year 2004 Performance and Accountability Report, pp. C-197 – C-198
[15] http://www.cns.gov/about/index.html
[16] CNCS Press Release dated April 5, 2005 at http://www.cns.gov/news/pr/05_0405.html

The activities of the Corporation are primarily funded through two separate appropriation bills. One is the Labor/Health and Human Services bill, which funds Domestic Volunteer Service Act (DVSA) programs. The DVSA appropriation is available for obligation by the Corporation for one fiscal year only. The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years except for the Salary and Expense (S&E) account, which is available for one year.[17]

Both the DVSA and the NCSA appropriations fund a part of the Corporation's costs for administrative operations. In addition, part of the NCSA appropriations are provided on a no-year basis for the National Service Trust, a fund within the Corporation primarily used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps*State and National, Tribes and Territories, AmeriCorps*NCCC, and AmeriCorps*VISTA.[18]

## Overview of the National Service Trust[19]

The National Service Trust (the Trust) was established by the National and Community Service Trust Act of 1993 to provide funds for education awards for eligible participants who complete AmeriCorps service. Funding for the Trust comes from appropriations, interest earned, and proceeds from the sale or redemption of Trust investments.

Funds are available to:

- Repay qualified student loans;
- Pay educational expenses at a qualified institution of higher education;
- Pay expenses incurred participating in an approved school-to-work program; or
- Repay eligible interest expenses.

In its annual and quarterly financial statements, the Corporation includes an estimate of the anticipated service awards to be paid, which includes education awards and interest forbearance awards. These awards are paid to educational and financial institutions on behalf of participants who complete terms of service in AmeriCorps programs. As participants enroll in the program and complete 15 percent of their service requirement, the Corporation records a liability and expense. As awards are used, the liability is reduced. The Corporation's Trust Service Award Liability (SAL) is by far the largest liability on the Statement of Financial Position (see line item below). It is derived by taking the total number of AmeriCorps members enrolled in the program that have completed at least 15 percent of their service as of the quarter or year-end, and multiplying that number by several estimation factors, including percentage of members estimated to complete their term of service, the average amount of the awards that will be earned, and the likelihood that the awards will be used.

Transactions are recorded in the accounting system on an accrual basis and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Appropriations are considered earned for the Corporation's National Service Trust Fund

[17] CNCS Fiscal Year 2004 Performance and Accountability Report, p. C-198
[18] CNCS Fiscal Year 2004 Performance and Accountability Report, p. C-198
[19] CNCS, Fiscal Year 2006 Congressional Budget Justification, February 7, 2005, pp. 59-60

and are recognized as revenue when received in the Trust Fund. Expenses are recognized as members are enrolled in the Trust and complete 15 percent of their term of service.[20]

## CNCS 2004 Statement of Financial Position and Statement of Operations and Changes in Net Position[21]

### Statement of Financial Position

*(dollars in thousands)*

| | 2004 |
|---|---|
| **Assets** | |
| Fund Balance with Treasury | $ 854,370 |
| Trust Investments and Related Receivables | 337,913 |
| Advances to Others | 66,154 |
| Accounts Receivable, Net | 2,636 |
| Property and Equipment, Net | 962 |
| Total Assets | **$1,262,035** |
| **Liabilities** | |
| Trust Service Award Liability | $ 237,497 |
| Grants Payable | 117,250 |
| Accounts Payable | 7,133 |
| Actuarial FECA Liability | 12,401 |
| Other Liabilities | 10,391 |
| Accrued Annual Leave | 3,050 |
| Advances from Others | 187 |
| Capital Lease Liability | 66 |
| Total Liabilities | **$387,975** |
| Commitments and Contingencies | |
| **Net Position** | |
| Unexpended Appropriations | |
| Obligated | $ 740,769 |
| Unobligated | 48,286 |
| Cumulative Results of Operations | 85,005 |
| Total Net Position | 874,060 |
| Total Liabilities and Net Position | **$1,262,035** |

### Statement of Operations and Changes in Net Position

*(dollars in thousands)*

| | 2004 |
|---|---|
| **Revenues** | |
| Appropriated Capital Used, excluding Trust Fund | $ 644,171 |
| Appropriations received by Trust | 205,389 |
| Interest | 8,873 |
| Revenue from services provided | 7,329 |
| Other | 539 |
| Total Revenues | 866,301 |
| **Expenses** | |
| AmeriCorps | 454,971 |
| National Senior Service Corps | 240,775 |
| Learn and Serve America | 45,155 |
| Subtotal | 740,901 |
| Congressionally Earmarked Grants | 17,210 |
| DVSA State Grants | 1,202 |
| Office of Inspector General | 5,017 |
| Total Expenses | 764,330 |
| **Net of Revenues over Expenses** | $101,971 |
| **Net Position** | |
| Net of Revenues over Expenses | $101,971 |
| Change in Unexpended Appropriations, Net | 123,702 |
| Change in Net Position, Net | 225,673 |
| Net Position, Beginning Balance | 648,387 |
| Net Position, Ending Balance | $874,060 |

AmeriCorps expenses include $109 million for the increase in estimated service award liability for the year.

[20] CNCS Fiscal Year 2004 Performance and Accountability Report, p. C-198
[21] CNCS Fiscal Year 2004 Performance and Accountability Report, pp. C-189 – C-190

## Eligibility

AmeriCorps is open to U.S. citizens, nationals, or lawful permanent resident aliens age 17 and older. Members serve full or part time over a nine to 12-month period.

Members are eligible for an education award if they successfully complete their term of service in accordance with their member contract with one of the following approved AmeriCorps programs:

- AmeriCorps*State and National
- AmeriCorps*VISTA
- AmeriCorps*NCCC

A member serving in a full-time term of service is required to complete service within nine to 12 months. At the time a member uses the education award, he or she must have received a high school diploma, or the equivalent of such diploma. [22]

## Benefits

Upon successful completion of one term of service, members receive an education award of up to $4,725 to pay for college or graduate school, or to pay back qualified student loans. During their service, members receive health insurance, training, and student loan deferment. About half of the members also receive a modest annual living allowance of about $9,300. Members who serve part time receive a partial education award.[23] AmeriCorps members can earn an education award as well as an interest forbearance award. As an alternative to the education award, AmeriCorps*VISTA members may opt to take a $1,200 post-service cash stipend instead.

<u>Education Award</u>

A member can use his education award in any of the following ways, or a combination of them:[24]

1. Repay qualified student loans

   The national service legislation defines "qualified student loan" as a loan backed by the federal government under Title IV of the Higher Education Act (except PLUS Loans to parents of students), or under Titles VII or VIII of the Public Health Service Act. In addition, a member may use his education award to repay a student loan made by a state agency, including state institutions of higher education. Education Awards cannot be used to repay any other type of loan, even if the loan was obtained for educational purposes. A member can use his education award to repay defaulted student loans, as long as the loans meet the definition of "qualified student loan." Some of the most common federal qualified student loans are:

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[22] http://www.americorps.org/members/resource/education/awardinfo.html
[23] http://www.cns.gov/pdf/news/factsheets/03ACFactSheet.pdf
[24] http://www.americorps.org/members/resource/education/awardinfo.html

- Stafford Loans
- Perkins Loans
- Federal Direct Loans
- Supplemental Loans for Students (SLS)
- Federal Consolidated Loans
- Health Education Assistance Loans (HEAL)
- Health Professions Student Loans (HPSL)

2. Pay current educational expenses at a qualified school.

   "Current educational expenses," as authorized under 42 U.S.C. § 12604(c), include:

   - The "Cost of Attendance" for a degree- or certificate-granting program of study at a qualified school; and
   - Educational expenses for non-degree courses offered by qualified schools, such as continuing education courses.

   A school is qualified if it is a Title IV institution of higher education, as defined in section 101 of the Higher Education Act of 1965, as amended (20 U.S.C. 1001). This includes most colleges and universities.

3. Pay current educational expenses while participating in an approved school-to-work program.

As the following table shows, the amount of an education award depends on the length of service performed by an AmeriCorps member. As the member serves more hours, the member receives a larger education award.

| Service Term and Corresponding Education Award | | |
|---|---|---|
| **Service Term** | **# of Hours** | **Education Award** |
| Full-time | 1,700 | $4,725.00 |
| Half-time | 900 | $2,362.50 |
| Reduced half-time | 675 | $1,800.00 |
| Quarter-time | 450 | $1,250.00 |
| Minimum-time | 300 | $1,000.00 |

Payments made for Education Awards are considered taxable income in the year that the Corporation makes the payment to the school or loan holder. [25]

*Award Limitations*[26]

A member may only earn two education awards. A member is eligible to receive one award for each of his first two terms of service, regardless or the length of the term. Full-time, half-time, reduced half-time, quarter time, and minimum time terms of service each count as one term of service. Generally, if a member is released for cause before completing his term of

[25] http://www.americorps.org/members/resource/education/awardinfo.html
[26] http://www.americorps.org/members/resource/education/awardinfo.html

service and does not receive an education award, that term of service counts as one of his two terms. A member has up to seven years after completion of service to use his award (beginning on the last day of service); an extension of this seven-year limit can be granted on a case-by-case basis.

A member cannot transfer the education award to any other individual. The Trust does not make payments to anyone else other than qualified schools and loan holders. If a member withdraws from the school at which he has used the education award, the school may be required to refund the Trust. If any refund is owed, it is credited to the member's education award "account," and is subject to the seven-year time limit.

Under certain circumstances, a member can use the education award to study outside the U.S. Every member has seven years to use the education award from the date of his completion of service. A member can divide up his award and use portions of it at different times, as long as it is for authorized expenditures within the specified time period. One could, for example, apply a portion of it to existing qualified student loans, and save the remainder to pay for authorized college costs a few years down the road.

Interest Forbearance

Under the National and Community Service Trust Act of 1993, borrowers serving in approved national service positions in AmeriCorps qualify for mandatory forbearance during service. This forbearance allows borrowers to delay payments temporarily. Members may reapply if they continue service. Forbearance is granted by the lender. This accrued interest paid by the Trust, like the education award itself, is subject to income taxes.

Mandatory forbearance for approved national service positions is available for the following educational loans: Federal Family Education Loans (Subsidized and Unsubsidized Stafford Loans, Supplemental Loans to Students (SLS), Consolidation Loans), William D. Ford Federal Direct Loans (Direct Subsidized and Unsubsidized Stafford/Ford Loans, and Direct Consolidation Loans), Federally Insured Student Loans (FISL), Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Loans for Disadvantaged Students (LDS), Nursing Student Loans (NSL), and Primary Care Loans (PCL). Other deferments/forbearance may be available for Federal Perkins Loans and loans made directly to the member by a state agency.

During the service period interest continues to accrue. Upon successful completion of the term of service the National Service Trust will pay all or a portion of the interest that has accrued. If a member leaves service early for other than compelling personal circumstances he or she will be responsible for payment of the interest.[27]

The Trust will not pay interest on qualified student loans if the member fails to complete his term of service. Exceptions will be made only if the member fails to complete his term of service for compelling personal circumstances and he has earned a pro-rated award. It is up to the individual program to determine compelling personal circumstances. Examples that might be considered are a serious illness or injury, death of an immediate family member, or early closing of the project.[28]

[27] Corporation For National And Community Service Forbearance Request For National Service Form
[28] http://www.americorps.org/members/resource/education/benefits.html

## Funding and Budgetary Accounting

The Trust receives funding via no-year appropriations, interest income, and proceeds from the sale of investments. The 2004 Consolidated Appropriations act provided not less than $130 million for program year[29] 2004 awards to be earned and used.[30] These amounts are available until expended.

During fiscal 2002, the Corporation determined that the AmeriCorps program did not adequately consider the impact of education awards when making grant decisions to award national service positions, instead focusing exclusively on available appropriations for AmeriCorps grants and program costs per member. This condition did not present a problem until program year 2001 because, up until that time, enrollment in AmeriCorps programs did not vary much from the projected number used for calculating Trust fund needs. However, due to volunteer response after the events of September 11, 2001, and the President's Call to Service, member enrollment reached an unprecedented high, which did not become apparent until late August 2002. The high number of enrollments, coupled with a decrease in interest rates caused by changes in the economy, encumbered the Trust fund faster than previously forecast.

The Corporation's approval of AmeriCorps member slots in excess of the number of positions budgeted was a technical violation of its authorizing statute (section 129(f) of the National and Community Service Act (42 U.S.C. 12581(f))). The statute requires the Corporation to ensure that there are sufficient funds in the National Service Trust to support the projected number of enrollments in the Trust before approving national service positions. To prevent enrollments in excess of the projected number that could be supported by the Trust, the Corporation suspended the ability of its grantees to enroll members into national service positions that had already been authorized until final Congressional action on the Corporation's appropriations for fiscal 2003. This suspension did not affect members already enrolled in Corporation programs.[31]

In program year 2003, there were approximately 50,000 AmeriCorps positions available to be filled across all AmeriCorps programs. These 50,000 positions consisted of about 22,000 positions created by 2003 AmeriCorps*State and National grants, another 20,000 positions created by 2002 grants but delayed into 2003 by the enrollment pause, and about 6,000 AmeriCorps*VISTA and 1,200 AmeriCorps*NCCC positions. The 20,000 refers to positions created by grants approved in the summer of 2002 which were unfilled at the time of the

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[29] Most AmeriCorps enrollments occur in the fiscal year following the fiscal year in which the appropriation occurs. This is because most AmeriCorps grants are awarded in the late summer or fall, close to the end of the fiscal year. Therefore AmeriCorps enrollment is often measured by program year, as opposed to fiscal year. Program year refers to positions awarded through, although not necessarily filled in, a particular fiscal year's grant funds.

[30] Public Law 108-199 provided for necessary expenses for the Corporation for National and Community Service (the ``Corporation'') in carrying out programs, activities, and initiatives under the National and Community Service Act of 1990 (the ``Act'') (42 U.S.C. 12501 et seq.), $553,225,000, to remain available until September 30, 2005: Provided, That not more than $314,000,000 of the amount provided under this heading shall be available for grants under the National Service Trust Program authorized under subtitle C of title I of the Act (42 U.S.C. 12571 et seq.) (relating to activities of the AmeriCorps program), including grants to organizations operating projects under the AmeriCorps Education Awards Program (without regard to the requirements of sections 121(d) and (e), section 131(e), section 132, and sections 140(a), (d), and (e) of the Act): Provided further, That not less than $130,000,000 of the amount provided under this heading, to remain available without fiscal year limitation, shall be transferred to the National Service Trust for educational awards authorized under subtitle D of title I of the Act (42 U.S.C. 12601), of which up to $5,000,000 shall be available to support national service scholarships for high school students performing community service, and of which $10,000,000 shall be held in reserve as defined in Public Law 108-45.

[31] CNCS Fiscal Year 2002 Performance and Accountability Report, p. 86

enrollment pause. These 20,000 slots, which could be filled only after the pause was lifted in March 2003, were reclassified as belonging to program year 2003.[32]

On July 3, 2003, the President signed into law the Strengthen AmeriCorps Program Act (SAPA).[33] This legislation established a clear set of budgeting guidelines for the National Service Trust. Specifically, the Act:

- Directed the Corporation to record in the National Service Trust at the time of approval an amount for education awards that considers the value of the award, as well as the enrollment rate, earnings rate, usage rate, and net present value (the time value of funds) in calculating the budgetary obligation amount;
- Established a reserve fund that will protect the Corporation in the event that the estimates used to calculate the budgetary obligation are incorrect; and,
- Reinforced sound practices in obligating education awards in the Trust and protecting AmeriCorps members by providing additional oversight, including annual CEO certifications of compliance with these new requirements and annual audits of recorded estimates and Trust accounts.

SAPA directed that the Corporation begin recording Trust budgetary obligations at the time of grant award for the estimated value of the education benefit, discounted for the estimated enrollment, earning and usage rates and the time value of money. The Corporation used the following assumptions to calculate Trust budgetary obligations for program years 2003 and 2004: full value of the education award, 100 percent enrollment rate, 80 percent earning rate, and 80 percent usage rate. These enrollment, earning, and usage rates were more conservative than the historical rates used previously in determining the Corporation's budgetary needs. For program year 2002 and prior, the Corporation used the actual amounts earned, adjusted for amounts used and projected to be used and the time value of money when establishing the obligation amount. The more conservative assumptions meant that annual Trust budgetary obligations exceeded by about $10 million the liability calculated using the experiential (historically-based) rates. As directed by SAPA, the Corporation also established a Trust reserve to protect the Corporation in the event that the estimates used to calculate budgetary obligations differ from actual results. As of September 30, 2004, $19.9 million of the Corporation's investment account had been set aside for this reserve.

In addition, the Corporation implemented a set of controls to ensure the availability of Trust resources for AmeriCorps grant approvals. They included:

- Estimating total FTE and member slots available for the grant cycle and allocating them to programs;
- Requiring the CFO to certify the program and Trust costs of each proposed grant approval;
- Recording Trust budgetary obligations concurrent with the grant award process;
- Automating safeguards in the Web-Based Reporting System to prevent grantees from enrolling more members than they were allotted;
- Continuously tracking Trust enrollments to allow for timely mid-course corrections if necessary;[34] and,
- Continuously reviewing budgetary obligations and deobligating, as necessary.

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[32] CNCS Fiscal Year 2003 Performance and Accountability Report, p. 22
[33] PL 108-45
[34] CNCS Fiscal Year 2004 Performance and Accountability Report, pp. A-77, B-174 – B-175, and C-203

## Calculation of the Trust SAL Estimate[35]

The Corporation's Chief Financial Officer for Financial Management, or his designee, performs the following steps in preparing the quarter and year-end trust service award liability estimate:

A. Freeze the eSPAN database as of the end of the reporting period.

B. Extract service data from the frozen database. Using the reports function of the database, produce the following reports:
   1. Education Award Enrollments by PY, type, and program. This report provides the number of people enrolled, earning, earned, and did not earn by program year and service type. It also provides the dollar value of the awards earned by those enrolled members.
   2. Education Award Balance Adjustments for All Program Years. This report provides the net usage of the education awards by all program years and service type in each fiscal year.
   3. FY Interest Award Balance Adjustments for All Program Years. This report provides for all program years the amount of interest forbearance payments made in each fiscal year.
   4. Pending Members by Program Year and Program. This report provides all members listed as still pending in the database.

C. From the frozen database, extract a list of the number of positions by service type that have start dates after the 20th of the month before the month for which the liability is estimated (e.g., August 20th for a September 30th calculation or May 20th for a June 30th calculation). Subtract those numbers from the number of enrollees for the appropriate program year. These positions are subtracted from the calculation because they would not be entitled to a service award if their program ended as of the reporting date. They are considered ineligible because they have not yet completed 15 percent of service (the minimum level of service required by current law in order to receive a service award) at the time the liability is being estimated.

D. In the SAL model, record the number of members who have earned awards and the dollar amount of those awards by program year and service type.

E. Estimate the percent of members earning or pending (see definitions below) who will complete service. For the years in which significant service is still being performed, use the average completion rate for each service type from the program years in which most service has been completed to make this estimate. For years where most service is completed use a nominal rate to reflect awards that may be given. Multiply these percentages by the numbers of pending and earning to get an estimate of the number of members who will still earn awards from each program year.

F. Add this liability for those pending and still serving to the amount of the awards already provided to get the total education award liability for each program year.

G. For each program year, display the amounts of education award disbursed each fiscal year. Calculate the percentage of the total award that was paid in each fiscal year.

[35] Policy 1027 - Calculating the Service Award Liability, Effective Date: October 19, 1999

H. Utilizing the experience of all previous years, establish expected percentages of the education awards to be outlayed each year from the program year into the future. Multiply those percentages against the expected education award liability for each program year to estimate the outlay of education awards in the future.

I. Calculate the amount of interest forbearance paid out each year as a percentage of the total education award provided. Establish expected forbearance payment rates based on the experience to date. Multiply those percentages against the expected education award liability for each program year to estimate the expected interest forbearance liability and the expected outlays of forbearance awards in the future.

J. Record the total education award liability for each program year. Subtract out amounts disbursed for each program year leaving the remaining liability.

K. Record the total interest forbearance liability for each program year. Subtract out amounts disbursed for each program year leaving the remaining liability.

L. List any liability, payments made, and remaining liability for the President's Student Service Scholarship program.

M. Add the remaining liability for education awards, forbearance awards, and the President's Student Service Scholarship program to obtain the Trust's total estimated liability.

N. Subtract liability currently recorded from total estimated to obtain the expense amount to be recorded (change in total estimated liability from one reporting period to the next).

**Section 2. SPAN Enrollment Information (Report A)**

| Program Year | Type | Enrollment | Earning | Earned | Did not Earn | Amount | Earning + Pending-Not Eligible |
|---|---|---|---|---|---|---|---|
| | Full Time (FT) | 7,806 | 0 | 6,276 | 1,530 | $25,376,885.97 | 0 |
| 1994 | Part Time (PT) | 1,135 | 0 | 789 | 346 | $1,768,182.17 | 0 |
| | Reduced Part Time (RT) | 2,877 | 0 | 2,496 | 381 | $2,527,785.92 | 0 |
| | Total | 11,818 | 0 | 9,561 | 2,257 | $29,672,854.06 | 0 |
| | Full Time (FT) | 16,482 | 0 | 12,609 | 3,873 | $57,108,909.02 | 0 |
| 1995 | Part Time (PT) | 6,011 | 0 | 3,973 | 2,038 | $8,522,722.49 | 0 |
| | Reduced Part Time (RT) | 139 | 0 | 117 | 22 | $121,555.25 | 0 |
| | Total | 22,632 | 0 | 16,699 | 5,933 | $65,753,186.76 | 0 |
| | Full Time (FT) | 19,238 | 0 | 14,890 | 4,348 | $67,408,510.71 | 0 |
| 1996 | Part Time (PT) | 7,469 | 0 | 4,800 | 2,669 | $10,653,112.74 | 0 |
| | Reduced Part Time (RT) | 488 | 0 | 411 | 77 | $395,158.71 | 0 |
| | Total | 27,195 | 0 | 20,101 | 7,094 | $78,456,782.16 | 0 |
| | Full Time (FT) | 20,114 | 0 | 15,138 | 4,976 | $69,320,884.91 | 0 |
| 1997 | Part Time (PT) | 8,137 | 0 | 5,261 | 2,876 | $11,862,304.72 | 0 |
| | Reduced Part Time (RT) | 1,455 | 0 | 1,248 | 207 | $1,209,095.87 | 0 |
| | Total | 29,706 | 0 | 21,647 | 8,059 | $82,392,285.50 | 0 |
| 1998 | Full Time (FT) | 23,417 | 0 | 17,358 | 6,059 | $79,499,960.53 | 0 |
| | Part Time (PT) | 11,231 | 0 | 6,381 | 4,850 | $14,310,447.09 | 0 |
| | Reduced Part Time (RT) | 3,907 | 0 | 3,184 | 723 | $3,159,409.30 | 0 |
| | Total | 38,555 | 0 | 26,923 | 11,632 | $96,969,816.92 | 0 |
| | Full Time (FT) | 26,493 | 0 | 19,081 | 7,412 | $87,927,286.96 | 0 |
| 1999 | Part Time (PT) | 13,064 | 0 | 7,020 | 6,044 | $15,951,393.12 | 0 |
| | Reduced Part Time (RT) | 6,230 | 0 | 4,720 | 1,510 | $4,791,535.27 | 0 |
| | Total | 45,787 | 0 | 30,821 | 14,966 | $108,670,215.35 | 0 |
| | Full Time (FT) | 25,417 | 52 | 18,576 | 6,789 | $85,559,093.85 | 52 |
| 2000 | Part Time (PT) | 12,412 | 44 | 7,762 | 4,606 | $17,572,804.29 | 44 |
| | Reduced Part Time (RT) | 8,754 | 37 | 7,035 | 1,682 | $7,310,385.67 | 37 |
| | Total | 46,583 | 133 | 33,373 | 13,077 | $110,442,283.81 | 133 |
| | Full Time (FT) | 30,075 | 149 | 22,765 | 7,161 | $105,206,263.45 | 149 |
| 2001 | Part Time (PT) | 13,972 | 180 | 8,900 | 4,892 | $20,232,207.91 | 181 |
| | Reduced Part Time (RT) | 14,452 | 116 | 11,165 | 3,171 | $11,602,242.75 | 116 |
| | Total | 58,499 | 445 | 42,830 | 15,224 | $137,040,714.11 | 446 |
| | Full Time (FT) | 33,125 | 161 | 26,303 | 6,661 | $121,811,584.88 | 165 |
| 2002 | Part Time (PT) | 15,544 | 863 | 9,917 | 4,764 | $22,662,635.04 | 864 |
| | Reduced Part Time (RT) | 18,762 | 200 | 14,334 | 4,228 | $15,401,190.46 | 202 |
| | Total | 67,431 | 1,224 | 50,554 | 15,653 | $159,875,410.38 | 1,231 |
| | Full Time (FT) | 17,904 | 823 | 14,052 | 3,029 | $64,723,852.31 | 829 |
| 2003 | Part Time (PT) | 7,271 | 738 | 4,600 | 1,933 | $10,459,022.39 | 738 |
| | Reduced Part Time (RT) | 11,919 | 712 | 9,017 | 2,190 | $10,245,381.24 | 716 |
| | Total | 37,094 | 2,273 | 27,669 | 7,152 | $85,428,255.94 | 2,283 |
| | Full Time (FT) | 17,431 | 15,060 | 1,353 | 1,018 | $5,897,530.76 | 10,288 |
| 2004 | Part Time (PT) | 6,233 | 3,500 | 2,177 | 556 | $5,040,674.86 | 3,171 |
| | Reduced Part Time (RT) | 9,728 | 3,614 | 5,637 | 477 | $6,725,191.18 | 3,086 |
| | Total | 33,392 | 22,174 | 9,167 | 2,051 | $17,663,396.80 | 16,545 |

[Print Screen of Microsoft Excel SAL Model Input Spreadsheet]

*Appendix 1 – CNCS Trust SAL Fact Sheet*

**National Service Trust Fund**
**Service Award Liability Estimate**
**4th Quarter Estimate for Fiscal 2004**
**September 30, 2004**

| **Liability from Education Awards** | **Cumulative Forecasted Liability** | **Actual Amounts Paid To Date** | **Net Outstanding Liability** |
|---|---|---|---|
| Program Year 1994 | $ 22,317,821 | $ 22,317,821 | $ - |
| Program Year 1995 | $ 49,845,115 | $ 49,757,220 | $ 87,895 |
| Program Year 1996 | $ 59,714,874 | $ 59,246,088 | $ 468,786 |
| Program Year 1997 | $ 63,919,047 | $ 61,090,317 | $ 2,828,730 |
| Program Year 1998 | $ 76,037,811 | $ 69,529,627 | $ 6,508,184 |
| Program Year 1999 | $ 85,962,824 | $ 74,897,604 | $ 11,065,220 |
| Program Year 2000 | $ 87,434,451 | $ 70,994,658 | $ 16,439,793 |
| Program Year 2001 | $ 107,755,182 | $ 77,931,557 | $ 29,823,625 |
| Program Year 2002 | $ 128,358,229 | $ 74,420,574 | $ 53,937,655 |
| Program Year 2003 | $ 71,276,832 | $ 19,037,979 | $ 52,238,853 |
| Program Year 2004 | $ 61,541,017 | $ 1,435,475 | $ 60,105,542 |
| Total Liability from Education Awards | $ 814,163,203 | $ 580,658,920 | $233,504,283 |
| **Liability from Interest Forbearance** | | | |
| Program Year 1994 | $ 199,853 | $ 199,853 | $ - |
| Program Year 1995 | $ 660,526 | $ 660,526 | $ - |
| Program Year 1996 | $ 1,688,739 | $ 1,688,601 | $ 138 |
| Program Year 1997 | $ 2,443,443 | $ 2,437,051 | $ 6,392 |
| Program Year 1998 | $ 3,063,084 | $ 3,046,743 | $ 16,341 |
| Program Year 1999 | $ 3,433,436 | $ 3,410,830 | $ 22,606 |
| Program Year 2000 | $ 3,837,473 | $ 3,797,938 | $ 39,535 |
| Program Year 2001 | $ 3,442,538 | $ 3,343,068 | $ 99,470 |
| Program Year 2002 | $ 3,560,645 | $ 3,209,054 | $ 351,591 |
| Program Year 2003 | $ 2,361,188 | $ 1,093,592 | $ 1,267,596 |
| Program Year 2004 | $ 2,266,365 | $ 89,556 | $ 2,176,809 |
| Total Liability from Interest Forbearance | $ 26,957,290 | $ 22,976,812 | $ 3,980,478 |
| **Liability from President Freedom Scholarships** | | | |
| Program Year 1998 | $ 1,237,500 | $ 1,237,500 | $ - |
| Program Year 1999 | $ 1,582,000 | $ 1,582,000 | $ - |
| Program Year 2000 | $ 2,456,500 | $ 2,456,500 | $ - |
| Program Year 2001 | $ 3,063,500 | $ 3,063,500 | $ - |
| Program Year 2002 | $ 2,965,000 | $ 2,965,000 | $ - |
| Program Year 2003 | $ 2,895,500 | $ 2,895,500 | $ - |
| Program Year 2004 | $ 3,299,000 | $ 3,299,000 | $ - |
| Total Liability from Scholarships | $ 17,499,000 | $ 17,499,000 | $ - |
| **Total Estimated Liability** | **$ 858,619,493** | **$ 621,134,732** | **$237,484,761** |

1 [Sample Trust SAL Calculation from Microsoft Excel SAL Model]

**Illustration of Various Factors that are considered in the Trust SAL Estimate (Using Program Year 2002 (PY 2002) members as of 9/30/2004):**

| | eSPAN (known) | Calculated (estimated) |
|---|---|---|
| Number Enrolled in PY 2002 | 67,431 | |
| Number Still Earning | 1,224 | |
| Number Earned | 50,554 | |
| Number Did not earn | 15,653 | |
| Education award amount earned | $159,875,410.38 | |
| Number Pending Members | 7 | |
| Number Not Completed 15% of service | 0 | |
| Education award amount paid | $74,420,574.00 | |
| Forbearance award paid | $3,209,054.00 | |
| Percent of FT "Still Earning" who will earn | | 0.49% |
| Percent of PT "Still Earning" who will earn | | 5.55% |
| Percent of RT "Still Earning" who will earn | | 1.07% |
| Number of FT "Still Earning" who will earn | | 1 |
| Number of PT "Still Earning" who will earn | | 48 |
| Number of RT "Still Earning" who will earn | | 2 |
| Percent of FT enrollees who will earn | | 79.41% |
| Percent of PT enrollees who will earn | | 63.80% |
| Percent of RT enrollees who will earn | | 76.40% |
| Average FT award amount | | $4,631 |
| Average PT award amount | | $2,285 |
| Average RT award amount | | $1,074 |
| Estimated liability for FT "Still Earning" expected to earn awards | | $4,631 |
| Estimated liability for PT "Still Earning" expected to earn awards | | $109,691 |
| Estimated liability for RT "Still Earning" expected to earn awards | | $2,149 |
| Percent of Education Award Payments that will be used | | 79.00% |
| Percent of Interest Forbearance Award Payments that will be used | | 2.89% |
| Forecasted Education Liability for FT/PT/RT as of 9/30/2004 | | $128,358,229 |
| Actual Education Amounts Paid for FT/PT/RT as of 9/30/2004 | $74,420,574 | |
| Outstanding Education Liability for FT/PT/RT as of 9/30/2004 | | $53,937,655 |
| Forecasted Forbearance Liability for FT/PT/RT as of 9/30/2004 | | $3,560,645 |
| Actual Forbearance Amounts Paid for FT/PT/RT as of 9/30/2004 | $3,209,054 | |
| Outstanding Forbearance Liability for FT/PT/RT as of 9/30/2004 | | $351,591 |

Note: Estimates are updated quarterly as actual information in eSPAN is updated and re-entered into the Trust SAL model spreadsheet.

## Service Award Liability (SAL) Definitions

| | |
|---|---|
| Compelling Personal Circumstances | Members who have to leave their position for circumstances beyond their control may be eligible for prorated awards with the approval of their program officials. |
| Did not Earn | An enrolled member who terminates service without successfully completing a term of service does not earn an education award and therefore is not eligible for an education award or forbearance award payment. |
| Earned | An enrolled member for whom a program has certified end of term documentation to confirm that they have successfully completed a term of service and thus earned an education award. |
| Earning or Still Active | An enrolled member for whom no end of term documentation has been received. |
| End of Term Form | The documentation used to support a member's successful completion of a term of service in an AmeriCorps program (primarily performed on-line in WBRS). |
| Enrolled | A member who has accepted a term of service in an approved AmeriCorps position and whose program sponsor has submitted to the Trust properly completed enrollment documentation (primarily on-line through the Web Based Reporting System (WBRS)). |
| eSPAN | The Electronic System for Programs, Agreements, and National Service Participants. eSPAN is the database used by the Trust to capture member data required to calculate the service award liability as well as maintaining member data records and creating service award payment files. |
| Fiscal Year | The federal government's fiscal year - October 1 to September 30. |
| Full-time (FT) | Participant enrolled in service for 1,700 hours. |
| Part-time (PT) | Participant enrolled in service for 900 – 1,699 hours. |
| Pending | Members for whom enrollment documentation was received but remains in a suspense status due to incomplete documentation, a position not currently available in the particular program, or some other administrative matter. These individuals may or may not later become enrolled. |
| President's Student Service Scholarship | This program, in which scholarships are provided to high school students active in service work, is not a part of AmeriCorps. It is administered through a private organization. Beginning in FY 1998, Congress, through appropriation language, has allowed the cost of those scholarships to be paid from the Trust. Congress has set the ceiling for this activity through that appropriation language. There are a small number of these payments made from the Trust each year for this purpose. However, those payments are not part of the Trust database that is based on enrolled AmeriCorps members. |
| Program Years (PY) | Each year Congress provides funding for AmeriCorps activity. In a minority of cases, the service performed by AmeriCorps members is in the same year as the year of the appropriation. However, in most cases, because of the grant issuance process and the manner in which the programs are administered, the service is performed in the year or years subsequent to the year of the appropriation. For purposes of the liability estimate, program year refers to the year in which the funds were appropriated, regardless of the time period in which a member actually serves. |
| Reduced Part-time (RT) | Participant enrolled in service for 300 – 899 hours. |

| | |
|---|---|
| Service Awards | There are two types of service awards: education awards and forbearance awards. Members who successfully complete a term of service in AmeriCorps are entitled to an education award which can be used to pay the cost of attendance at a qualified educational institution, to repay qualified student loans, or to pay for participation in a school to work program. The funds are available for use for a period of 7 years from the end of service and are paid by the Trust to the institution as directed by the member. In addition to the education award, the Trust will pay the interest that accumulated on qualified student loans that were placed in forbearance during the member's term of service. Those forbearance payments are awarded when they are paid on behalf of a member who successfully completes service and files the required documentation from their respective loan holder. |
| Service type | Members can serve in full-time, part-time or reduced part-time terms of service. The amount of the education award and the percentage of interest accrued while loans are in forbearance varies according to the length of service. |
| Web Based Reporting System (WBRS) | An internet-based electronic system for the use of program sponsors and grantees in recording and reporting on member enrollment and service activity. |

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